Exploring Funding Solutions for Texas School Districts' Healthcare Needs and Understanding the Self-Funding Approach

by Gallagher Insurance Consulting and TASB Benefits Cooperative

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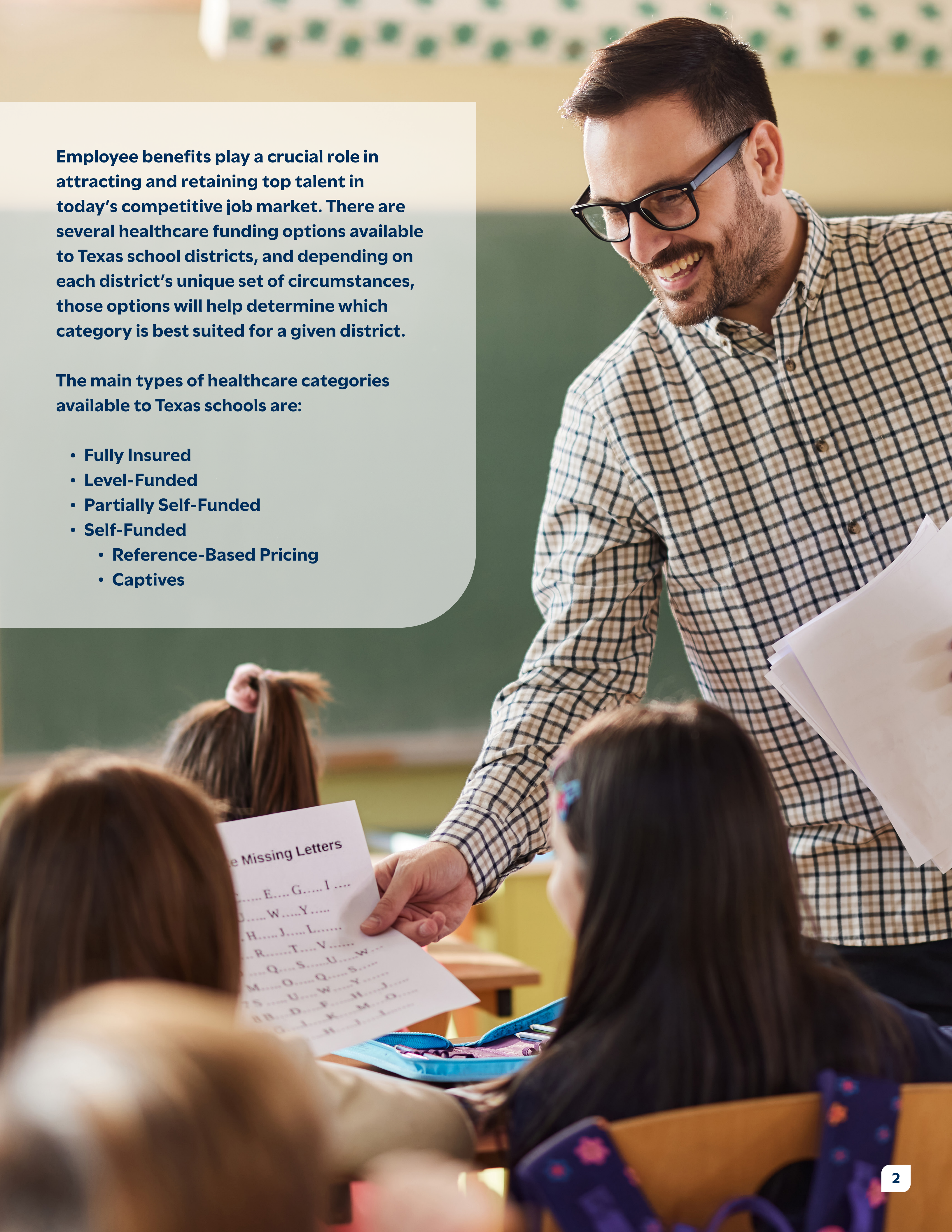
Employee benefits play a crucial role in attracting and retaining top talent in today's competitive job market. There are several healthcare funding options available to Texas school districts, and depending on each district's unique set of circumstances, those options will help determine which category is best suited for a given district.

The main types of healthcare categories available to Texas schools are:

- Fully Insured
- Level-Funded
- Partially Self-Funded
- Self-Funded
    - Reference-Based Pricing
    - Captives



Employee benefit plan funding options

Fully Insured Employee Benefit Plans

In a fully insured plan, the employer contracts with an insurance carrier to provide employee benefits. The employer pays a fixed premium to the insurance carrier, who assumes the financial risk of covering employee claims. The insurance carrier is responsible for managing the plan, including claims processing, provider networks, and administrative tasks. The employer has limited control over plan design and may have less visibility into the cost and utilization of the benefits.

Level-Funded Employee Benefit Plans

Level-funded plans are a hybrid between fully insured and self-funded plans. Employers pay a fixed premium to an insurance carrier, like a fully insured plan. However, the premium is typically lower than a fully insured plan because it includes a self-funding component. The insurance carrier sets aside a portion of the premium in a claims fund to cover anticipated employee claims. If claims are lower than expected, the employer may receive a refund. If claims exceed the fund, the insurance carrier covers the excess. Level-funded plans provide employers with more cost predictability and potential savings compared to fully insured plans.

Partially Self-Funded Employee Benefit Plans

Partially self-funded plans allow employers to assume a portion of the financial risk while still having some level of insurance coverage. Employers pay a fixed premium to an insurance carrier for a specific level of coverage, like a fully insured plan. However, the employer also sets aside funds to cover a portion of the claims. If claims exceed the employer's set amount, the insurance carrier covers the excess. Partially self-funded plans provide employers with more control over plan design and cost management while still having some protection against high claims.

Self-Funded Employee Benefit Plans

In a self-funded plan, the employer assumes the full financial risk of providing employee benefits. Instead of paying premiums to an insurance carrier, the employer sets aside funds to cover the cost of employee claims. The employer has more control over plan design, provider networks, and cost management. They may also have access to claims data and utilization reports, allowing them to identify cost drivers and implement cost-containment strategies. Self-funded plans can offer more flexibility, customization, and potential cost savings compared to fully insured plans, but they also require careful risk assessment and financial stability.

Traditionally, school districts have relied on insurance carriers to provide and manage these benefits. However, an increasing number of districts are turning to self-funding as a more cost-effective and flexible solution.

Sixty-one percent of employees in companies of 200-999 employees have self-funded health insurance, for organizations with 1000-4999 that numbers grows to 81%. (source: Kaiser Family Foundation 2023 Employer Health Benefits Survey) Let's further explore the advantages of self-funding employee benefits and why it has become an attractive option for districts.

Advantages of Self-Funding Employee Benefits

Cost Savings
One of the primary reasons school districts choose self-funding is the potential for cost savings. By eliminating the profit margin of insurance carriers, districts can save on administrative fees, taxes, and other expenses associated with fully insured plans. Additionally, self-funding allows employers to pay only for the actual claims incurred by their employees, rather than a fixed premium amount.

Flexibility and Customization
Self-funding provides employers with the flexibility to design benefit plans that meet the specific needs of their workforce. Unlike traditional insurance plans, which often come with predefined coverage options, self-funded plans can be tailored to include the desired benefits and cost-sharing arrangements. This customization allows employers to offer benefits that align with their employees' preferences and demographics.

Transparency and Control
With self-funding, school districts have full visibility into the cost and utilization of their benefit plans. This transparency enables them to identify cost drivers, implement cost-containment strategies, and make informed decisions about plan design and provider networks. School districts can also negotiate directly with healthcare providers, pharmacies, and other vendors to secure better pricing and quality of care.

Cash Flow Management
Self-funding allows employers to maintain control over their cash flow. Instead of paying fixed premiums to insurance carriers, employers only pay for actual claims as they occur. This can help school districts better manage their budget and allocate funds more efficiently. Additionally, any unused funds at the end of the plan year can be carried forward or used to enhance employee benefits.

Employee Engagement and Wellness
Self-funded plans often come with wellness programs and initiatives aimed at promoting employee health and well-being. By investing in preventive care and wellness initiatives, employers can reduce healthcare costs in the long run and improve employee productivity and satisfaction. Self-funding provides the flexibility to implement these programs and incentivizes employees to take an active role in managing their health.

Self-Funding Considerations

Financial Considerations	Pros	Cons
	• Potentially minimize annual rate increase • Remove insurer's profits • Lower retention and risk charges • Retain and invest reserves • Potentially improve cash flow because claims are not paid until after they are incurred • Remove state mandates/ requirements	• Potentially assume greater risk • Experience inconsistent monthly total costs • Accept volatility of reinsurance market • Potentially receive lasers at renewal • Lasering is a common stop loss practice in which an individual participant—based on prior claims experience or known conditions—is covered by the stop loss policy at a higher specific deductible than the rest of the group. As a result, the employer takes on additional claim risk for the individual in exchange for lower annual premium across the entire plan. • Utilize zero-balance accounting for weekly payment of claims • Accrue for outstanding claims

Self-Funding Considerations

Administrative Considerations

Pros

- Retain more control over the plan
- Control which additional services members receive (disease management, nurse line, etc.)
- Experience less need to change carrier/TPA and networks to obtain better rates
- Maintain seamless process for employees and members when changing reinsurance carriers
- Own claims data and receive more extensive reports and detailed analysis

Cons

- Commit to additional cash flow management
- Be responsible for additional ACA reporting requirements
- Lose the ability to have a TPA handle ACA fee payment and filing (employer must pay for and file ACA fees)
- Engage additional vendor(s) and create more decisions for the benefits staff
- Possibly receive appeals from members

Referenced-Based Pricing and Captives

Referenced-Based Pricing (RBP) and captives are two strategies that can be used in self-funded employer benefit plans to control costs and manage risk.

Referenced-Based Pricing (RBP)

RBP, as mentioned earlier, involves setting a maximum limit or reference price for specific medical procedures or services. By using a benchmark such as Medicare rates or other publicly available data, employers can negotiate rates with providers based on a percentage or multiple of the reference price. Employees may be responsible for any charges above the reference price, incentivizing them to seek lower-cost providers.

RBP can help employers achieve cost savings by encouraging price transparency and empowering employees to make informed decisions about their health-care. It requires careful planning, provider negotiations, and employee education to ensure access to quality care within the referenced price limits.

Captives

Captives are a risk management strategy used by self-funded employer benefit plans. A captive is an insurance company owned by the employer or a group of employers. It allows employers to pool their risks and share the financial burden of high-cost claims.

In the context of self-funded benefit plans, employers can form a captive to assume a portion of the risk associated with providing healthcare benefits to their employees. By sharing the risk among multiple employers, captives can provide stability and protection against catastrophic claims.

Captives can offer several benefits, including greater control over plan design, improved cash flow management, potential cost savings, and the ability to customize coverage to meet the specific needs of the participating employers.

It's important to note that both RBP and captives require careful consideration, risk assessment, and expertise in benefit plan design and administration. These can come with additional complexity and administrative responsibilities that should be carefully considered. School districts should consult with benefits consultants, insurance professionals, and legal advisors to determine the best approach for their specific needs and circumstances.

Conclusion

It is important to understand all healthcare options available to Texas school districts. Ultimately, it will be case-by-case scenarios that determine each district's best fit. Self-funding employee benefits offer numerous advantages for school districts seeking cost savings, flexibility, and control over their benefit plans. By assuming the financial risk and managing their own healthcare benefits, districts can customize plans, reduce administrative costs, and improve employee engagement. However, self-funding is not suitable for every organization, and careful consideration should be given to factors such as district size, financial stability, and risk tolerance. Engaging with a benefits consultant can help employers determine if self-funding is the right choice for their organization and ensure optimal program design.

Contact TASB Benefits Cooperative for a complimentary analysis as we walk you through some best practices to consider in making this important decision about your district's healthcare plan.

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